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RUEHKP/AMCONSUL KARACHI 0019
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UNCLAS SECTION 01 OF 02 ISLAMABAD 002403

SENSITIVE
SIPDIS

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TAGS: ECON EAID EAGR ETRD PGOV PREL PK
SUBJECT: FOOD AND AGRICULTURE POLICY REFORM OBJECTIVES

        REF: A.ISLAMABAD 0669
          B.ISLAMABAD 1705
          C.ISLAMABAD 1715
          D.ISLAMABAD 1914
          E.ISLAMABAD 2061
    F.ISLAMABAD 2107
          ¶G. KABUL 1254
    ¶H. ISLAMABAD 2250
    ¶I. ISLAMABAD 2233
    ¶J. ISLAMABAD 2400

¶1. (SBU) SUMMARY - Pakistan's current food problems are the result
of high world market prices and serious policy distortions that are
a disincentive to farmers. The World Bank is currently addressing
some of the most difficult food pricing policy issues with the USD
500 million budget support loan under negotiation with the GOP. Any
U.S.-supported food aid programs will help mitigate short-term
effects on the most vulnerable groups, and should be used to advance
a policy dialogue agenda. For medium and longer-term results, Post
is currently designing a five-year $300 million ESF-funded
agricultural development program that will address impediments to
agriculture production, including much needed policy reforms. END
SUMMARY.

¶2. (SBU) As noted in reftels, Pakistan's current food crisis is
caused by a) high world market prices of wheat and b) policy
distortions that discourage increased production and private sector
participation in the grain trade. Nearly all of Pakistan's 27
million poorest who live on less than a dollar a day are affected.
The World Food Program (WFP) and other UN agencies are finalizing
the report of the June 7-27 Assessment Mission that conducted
surveys throughout the country to identify the numbers and locations
of possible additional food assistance recipients. WFP analysis
corroborates Post's observations that food price increases have had
a serious effect on overall food security levels. Preliminary
results indicate that the numbers of people who are "severely
malnourished" (i.e., consumes less than 1,700 calories per day)
increased from approximately 37 million to over 45 million and that
poverty levels have increased since a year ago. The Assessment
Mission used as a baseline for comparison the GOP's national
"2005-06 Household Income and Expenditure Survey."

¶3. (SBU) We recommend against attaching policy reform measures to
any emergency relief food assistance, such as World Food Program
(WFP) emergency operations. However, if the USG approves a USD 20
million USDA monetization program, we can include in the provisions

a strong policy dialogue component that addresses some of the needed policy reforms. Post is also currently designing a five-year food and agriculture project that will include substantial involvement in agriculture policy reforms, including those described above.

¶4. (SBU) We believe that US food aid in the short run, and USAID agricultural development programs in the longer run, can be used effectively to address some of Pakistan's underlying food policy problems. Below is a list of fundamental food policy reform objectives that could have a positive impact on Pakistan's food and agriculture systems:

(a) Eliminate all untargeted wheat subsidies and increase the price paid to wheat farmers and the prices of wheat charged to consumers to international levels;

(b) Lift all GOP and provincial government restrictions on the internal and external movement of food;

(c) Reduce the role of the provincial Food Departments and Pakistan Agricultural Storage and Services Corporation (PASSCO) in the procurement and sale of wheat. These state-owned bodies now buy and sell about 60 percent of the nation's commercially available wheat supply. Reducing their role and maintaining prices at international levels would allow the private sector to become more actively engaged in food trade at market prices;

(d) Reduce the role of the Trading Corporation of Pakistan (TCP) which has a monopoly on the import and export of food. In conjunction with the pricing reforms mentioned in

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(a) above, this would allow the private traders to enter the market;

(e) Encourage the TCP to establish a level playing field when issuing tender specifications to import wheat and other commodities. Currently TCP manipulates its procurement technical specifications and the inspection process to direct procurements to selected international suppliers, effectively cutting out competition and reducing the U.S. market share.

¶5. (SBU) The food and agriculture policy distortions are well-known, documented and discussed in Pakistan. The World Bank is currently negotiating a $500 million budget support loan which includes eliminating untargeted wheat subsidies by June 2009 and lifting all trade restrictions on wheat. These two major reforms would increase wheat prices to both farmers and consumers by significant amounts.

¶6. (SBU) Despite widespread agreement that such reforms would increase food supplies and agricultural production in the long run, it is unlikely that either the GOP or World Bank will succeed in achieving these targets within one year – by June 2009. The objectives could more realistically be achieved gradually over a three-year time span. Nevertheless, MINFAL and other GOP policymakers, PASSCO, the provincial Food Departments, and TCP will resist. The provincial Food Departments, for example, currently procure, store and sell 50% of Pakistan's marketable surplus. They zealously guard their independence, and are interested only in protecting provincial consumers.

PATTERSON